

Summary of H. R. 3121, The Flood Insurance Reform and Modernization Act of 2007

Background

The National Flood Insurance Program (NFIP) is the largest single-line property insurer in the nation, providing flood insurance coverage for 5.4 million consumers. After the 2005 hurricane season, the NFIP was forced to borrow nearly \$18 billion from the Treasury to pay its claims. The NFIP admits it will never be able to repay this amount. This has led to bipartisan calls for greater Congressional oversight of the program, as well as reforms that will modernize it and make it more financially sound.

On July 26, 2007, the House Financial Services Committee approved H.R. 3121, The Flood Insurance Reform and Modernization Act of 2007, by a vote of 38-29. The bill contains a number of provisions similar to legislation that overwhelmingly passed the House last year, and was nearly identical to H.R. 1682, a flood insurance reform bill introduced earlier this year by Chairman Frank and Congresswoman Judy Biggert (R-IL). However, before the flood insurance markup, Committee Democrats amended the bipartisan bill to radically expand the NFIP by requiring it to compete in the private wind insurance market, vastly increasing its scope and risk exposure. These provisions were taken from legislation (H.R. 920) which has been roundly criticized by consumer, environmental, business, and taxpayer groups. As reported, H.R. 3121 would:

- Require the NFIP to phase in actuarial rates on vacation homes and second homes, thereby eliminating the subsidy currently enjoyed by owners of these properties;
- Require FEMA to participate in state mediation programs;
- Increase fines on lenders who do not enforce mandatory flood insurance policy purchase requirements for floodplain residents holding a federally-backed mortgage;
- Enable small business owners to purchase business interruption coverage at actuarial rates;
- Update maximum insurance coverage limits for residential and nonresidential properties for the first time since 1994;
- Require greater accountability and financial responsibility at the NFIP;
- Require ongoing updating and modernization of flood maps;
- Clarify disclosures to consumers about flood insurance; and
- Require the NFIP to offer wind insurance coverage in conjunction with flood insurance.

Talking Points

- Rather than reform the program, Committee Democrats want to expand it without adequate study. During a legislative hearing, representatives of flood management groups, the insurance industry, environmental organizations, Treasury, and FEMA all expressed agreement that a comprehensive study of the proposed wind insurance mandate should first be commissioned, to provide Congress

with a better understanding of the possible implications this expansion could have for consumers, the NFIP, and the market.

- Expanding

the program puts taxpayers at risk. The Eastern seaboard and Gulf Coast contain more than \$19 trillion of insured value. Shifting the risks on even a portion of these properties to the troubled NFIP could expose taxpayers to massive losses.

- Adding wind coverage to the NFIP would also likely exacerbate its administrative problems. Both the DHS and GAO have criticized the NFIP for being understaffed, not having adequately updated flood maps, and not collecting sufficient information on write-your-own (WYO) companies' wind payments when claims are submitted for flood damage. Under the circumstances, expanding the NFIP's portfolio further before needed reforms are implemented is ill-advised.

- Instead of improving

availability of wind coverage for policyholders, this bill could actually drive out private insurers in some cases, leading to reduced choices for consumers. Many insurance companies will opt to not compete with the Federal government, since the government does not pay taxes, has subsidized borrowing costs, is not required to build a reserve surplus, and is protected from most lawsuits and state regulation and enforcement.

The Bottom Line

Reforming the troubled flood insurance program should be Congress's priority, not radically expanding its scope. Congress should pass the reform proposals around which a bipartisan consensus already exists. The NFIP's mission should not be expanded, exposing taxpayers to massive new risks, until reforms are in place and adequate study has occurred.